

Bucharest , December 19th 2011

We wish all our clients and persons who receive this news letter our best wishes for a happy Christmas and a prosperous New Year.

Government has cleared the administrator of residences and other buildings used by public institutions, to sell 733 buildings it manages, in public auctions.

The Government approved an emergency ordinance allowing the sale of 733 buildings in public auctions in which public officials may participate subject to conditions.

The starting price for government buildings up for auction will be set by expert appraisers. RA-APPS will not be selling headquarters of public institutions, political parties, diplomatic residences, embassy headquarters or residences of Romania's former heads of state.

RA-APPS is the administrator of residences and other buildings used by public institutions, such as the Parliament, Government, Presidency, Constitutional Court and diplomatic missions.

RA-APPS is in charge of around 650 government residences and offices, more than 75 villas and over 250 hectares of land, inherited from the former state apparatus of the Communist Party and now occupied by current or former dignitaries, or even their relatives.

In addition, the authority also manages dozens of commercial areas, farms and tourist units, of which the Triumf hotel in Bucharest, the Mara hotel in Sinaia, Clubul Floreasca, the Scrovistea complex and the Palat Snagov complex are among the most valuable.

Romania has until December 31, 2013 to get in line with the EU's requirements on raw cow milk.

Romanian farmers, producers and processors must take every step to ensure they are in line with the community hygiene requirements on raw milk.

"As regards milk quality, considerable efforts have been made and progress has been seen, but the producers have requested an additional transitional period, until December 31, 2013, to improve the quality of raw milk and, therefore, the milk collection system and hygiene in milk cow farms and milk processing units," says a press release.

Only 80% of the milk supplied by Romanian cattle farmers to processing plants is in line with European rules. ANSVSA estimated that, by the end of December 31, 2012 –, about 19% of the raw milk provided to processing units would not meet the European quality requirements.

Romania's Development Ministry will use European funds for building thermal rehabilitation, having received the European Commission's permission.

Next year, the ministry will present a scheme for the financing of projects to improve energy efficiency from non-refundable European funds. It is currently discussing a number of changes to the thermal rehabilitation program, as well as technical issues.

The financing scheme will be included in the 2007-2013 Regional Operational Program, through axis 1 – supporting the durable development of towns.

The beneficiaries will be the local authorities in partnership with homeowners' associations. Priority will be given through the program to buildings constructed in 1950-1990.

The European Commission took Romania and Bulgaria to the European Court of Justice, claiming the two states do not offer backhaul at all interconnection points.

“Cross-border trade can only happen if all market participants have equal access to gas transmission networks to supply customers. To guarantee this equal third party access it is important that maximum network capacity is being offered to the market. It is equally important that reliable and transparent information on the capacity of the network is provided to all market participants,” the EC said in a news release. Romania and Bulgaria are still not fully aligned with EU gas market rules, according to the document.

In addition, Romania's Transmission System Operator is seen as not fully compliant with EU transparency requirement, which prevents the gas market from becoming really competitive, since there is no information available on accessible capacity. Romania and Bulgaria have failed to observe commitments made under Gas Regulation No. 715/2009.

The Romanian Government has approved the draft 2012 state budget.

The 2012 general consolidated budget states total revenues of RON 195.3 billion lei (EUR 44.7 billion) and total expenses of RON 206.5 billion, which translates into a nominal deficit of RON 11.2 billion, or 1.9% of the gross domestic product in cash terms, or under 3% according to European accounting standards.

Budget revenue is equivalent to 33.7% of the GDP, up 0.3 percentage points compared with this year. Social contribution, VAT and excise duties make up the largest share of the budget income. The budget spending estimate for 2012 is RON206.5 billion, 35.6% of the GDP, compared with 37.8% of the GDP in 2011.

The Government might increase staff expenses within a cap of 7.2% of the GDP, if the economic situation allows for it. This means it might allot RON1.7 billion to RON1.8 billion lei to raise wages. Romania's economic growth in 2012 is estimated at 1.8%-2.3%.

Romanian former Interior Minister Vasile Blaga elected Senate chairman.

Democrat liberal Blaga garnered 69 votes, and his sole contender, opposition social democrat Titus Corlatean, 63 votes.

The Standing Bureau of the Democratic Liberal Party (PDL), Blaga will be the party's candidate for the position of Senate chairman. Mircea Geoana was removed from the office of Senate chairman, after being expelled from the Social Democratic Party.

Mobile licenses of Orange Romania and Vodafone Romania will be extended until April 2014, when the license of mobile operator Cosmote Romania also expires.

“ANCOM wants to organize an auction by the end of 2013 for the entire frequency spectrum in the 900 MHz and 1800 MHz bands, and expend Orange Romania and Vodafone

Romania's right to use radio frequencies in these bands until new licenses are granted," the institution said in a press release.

The new mobile licenses will be granted starting April 6, 2014, when Cosmote Romania's right to use frequencies in the before mentioned bands also expires. By December 31, 2012, Orange Romania and Vodafone Romania must make available a 2x5 MHz sub-band in the 900 MHz frequency spectrum, which will not affect the services the two mobile operators provide.

GSM licenses for the 890-915 MHz and 935-960 MHz frequency bands were awarded at the end of 1996 to the companies that currently operate as Orange Romania and Vodafone Romania. They were valid for 15 years and expire on December 21, 2011. Each of the two mobile operators paid \$75 million for the GSM licenses.

Orange Romania and Vodafone Romania are leaders on the local mobile telephony market. Together they have about 20 million clients. Cosmote Romania comes in the third place with over 6 million clients.

Insurers failing to observe the terms stated in mandatory car insurance policies (RCA) will have to pay damages to policyholders.

Penalties to be paid by insurers for breaching RCA insurance contracts stand at 0.2% (per day) of the value of damages owed to the policyholder. The reason behind CSA Council's decision to amend RCA regulations was the number of complaints it received regarding the payment of damage claims on the mandatory car insurance segment.

One of the newly approved measures states that authorization to sell RCA policies is valid for an indefinite period, which means insurers must no longer file paperwork every year to get authorization, but they must observe requirements.

Under the new regulations, RCA insurers will pay damages if they failed to inform policyholders, within at most three months from approving claim procedures, about their damage claims being rejected and the reasons why they were not approved. The interval in which insurers must inform policyholders about their plan to run investigations was reduced from ten to five workdays.

If costs to repair a damaged car are likely to exceed the value of the respective car, the insurer must notify the car owner within ten days about the maximum value of damages that can be paid. Starting 2012, for material damages resulted from an accident, regardless of the number of people involved, the damage claim cap will be the equivalent in lei of EUR1 million computed using the exchange rate announced by the central bank on the day the accident took place. For injury and death, regardless of the number of people involved, the damage claim limit will be EUR5 million (from EUR3.5 million in 2011).

Romania's Government has approved the legal framework allowing the hiring of private management for state-owned companies and also deciding that their salary would not be set by law, but through negotiation with the company's shareholders.

The framework was regulated through an emergency ordinance on corporate governance in state-owned enterprises. The rules apply to Romanian state-owned enterprises, with the exception of insurance and reinsurance companies, and lending and financial institutions.

The ordinance on corporate governance allows the companies to choose between a monist or dualist administration system and sets rules on the membership of the management/

supervisory board and the executive management, and the protection of minority shareholders.

The first nine companies which will be run by outside managers are postal services provider Posta Romana, airline Tarom, hydropower generator Hidroelectrica, chemical plant Oltchim (OLT.RO), railway companies CFR Marfa and Electricare CFR, mining company Societatea Nationala a Lignitului Oltenia, military defense contractor Romarm and energy supplier Electrica Furnizare.

Romania's Government is considering setting up a real estate company to manage all real estate assets of state-owned transport companies.

The Government put forth the possibility of creating a real estate asset management company for the transport sector in its latest letter of intent to the International Monetary Fund following the review mission in October-November.

In the letter the Government pledges to find ways until end March 2012 to improve procedures to attract revenues and manage real estate assets of several state-owned transport companies, including by setting up a real estate management company. Romania's state-owned railway and road transport companies have real estate assets in their portfolios that may be worth billions of euros.

The Romanian Government will continue layoffs in the railway sector next year and will carry on auctions to lease 1,600 kilometres of extended railway.

By the end of 2012, the Government will cut 85 other positions at Electricare CFR and 28 positions at the railway intervention company (Interventii Feroviare S.A.). Interventii Feroviare's average number of employees reached 304 in 2010. This spring, the company was included on the list of companies monitored by the IMF. Electricare CFR has about 3,000 employees.

The total number of railway lines administered by CFR SA will be substantially reduced in the upcoming years to maximum 15,500 kilometers, which will entail further layoffs, namely 2,000 by the end of April 2012. Personnel managing structural funds will not be reduced, reads the document.

The Government will continue auctions to lease 1,600 kilometers of extended railway, bringing the total number of line kilometers under private management to 4,000 kilometers. The railway lines for which tenders failed will be closed by the end of April.

The Government decided in July to lease 1,000 km of public railroad and close another 1,000 km, in an effort to save 109 million lei (EUR25 million) from the railway company budgets. Under the agreement, the Government will develop a plan by the end of January to increase revenues from renting out commercial space, also through public-private partnerships.

Romania will join the fiscal union pact recently agreed on by European Union leaders.

President Basescu said that the Romanian Parliament will decide on this matter. One of the fiscal rules agreed upon in Brussels states structural deficits should not exceed 0.5% of the gross domestic product. The pact does not force Romania to amend its fiscal legislation, as long as the country observes deficit and government debt caps, he added.

The President pointed out that Romania must transpose the new financial regulations into its Constitution and firmly rejected the Opposition's proposition that they be transposed into the national legislation through a special law.

Prime Minister Emil Boc said Romania is in favor of imposing stricter fiscal rules in the European Union, including penalties for exceeding a budget gap of 3% of the gross domestic product and a government debt of 60% of GDP.

Romanian President Traian Basescu said he is sending back to Parliament a bill whereby construction permits are issued by default if local authorities fail to respond to permit applications within 30 days.

"If we had a business environment we could trust to play by the law I wouldn't hesitate to sign this bill into law but, for now, I'm sending it back to Parliament because we risk allowing constructions everywhere," said Basescu, adding it would be easy for real estate to "find a friend at the city hall" to stall their construction permit application.

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